



# Intelligence Memorandum

Office of African and Latin American Analysis

6 January 1995

## Panama: Breathing New Life Into the Legislative Process

*The signs are positive, so far, that President Perez Balladares will work more successfully with the Legislative Assembly than his predecessor, implementing an ambitious agenda and strengthening the democratic process in Panama.*

- The ruling Democratic Revolutionary Party (PRD), which gained a slim majority in last May's elections, has moved quickly to pass measures promised by the President, including many consonant with US policy interests, such as a ban on a standing army.

*Ruling party cohesiveness will be tested, however, when the next legislative session opens in March and the administration tables its economic reform bills.*

- *Perez Balladares probably will keep PRD radicals, who have vowed to oppose privatization moves and revisions to the protective labor code, from blocking legislation by making some compromises and threatening to cut off patronage.*
- *Moreover, he can build on recent support from members of the opposition--who already are well-disposed toward free market economic policies.*

*The President's success to date in working with the legislature is a good sign for advancing US policy interests in Panama.*

- *Perez Balladares is likely to move counternarcotics and Canal Treaty implementation legislation through the Assembly, but in return will seek US support for Panama's accession to GATT and NAFTA.*
- *He is likely, however, to increase his criticism of US policy on Cuba during the anticipated acrimonious floor debates on economic reforms in hopes of keeping left-leaning party members on board.*

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## Election Deals President a Strong Hand

The election last May gave the ruling party the political clout to push its legislative agenda for the first time since the collapse of the government coalition in 1992. With the PRD in the majority, Perez Balladares has begun to repair the broken relationship between the executive and legislative branches, which had come to symbolize the ineffectiveness and drift of the Endara Administration. He has tabled an ambitious legislative agenda that deals with unemployment, crime, economic reform, Canal Treaty implementation, and counternarcotics.

Although Perez Balladares was elected with only 33 percent of the vote, the PRD fared well on the local level, capturing 33 seats in the 72-seat legislature--increasing its legislative bloc by 23 seats. The addition of four seats from the allied Solidarity Party provides the ruling coalition with a spare two-seat majority in the Assembly. The PRD has used this majority to establish control over key legislative positions--PRD legislator Balbina Herrera was elected Assembly president, and the PRD and Solidarity control 17 of 18 chairmanships of legislative commissions. As a result, the PRD can set the priority and timing of key legislative votes.

Unlike his predecessor, President Guillermo Endara, Perez Balladares is a dynamic and politically astute leader with a proven track record of building political consensus. Most observers give Perez Balladares credit for rebuilding the PRD from its post-Noreiga ruins  His ability to forge a centrist consensus among the party's disparate ideological factions was key to the PRD victory in May. Moreover, since entering office, the President has not hesitated to use the whip hand with party dissidents to promote his agenda. Perez Balladares's 70-percent approval rating in recent polls gives him additional strength to push his agenda in the Assembly.

The ruling coalition also benefits from a weak and demoralized opposition. Most of the major opposition parties took a beating in the election--the Christian Democrats, for example, lost 11 of their 12 seats. In addition, as a result of the bitter and divisive campaign, the former ruling Arnulfista Party, whose 14 seats give it the second largest legislative bloc, has been unable to get commitments from the other major parties to form a unified opposition, according to cooperative source with good

access. Moreover, the Papa Egoro Party has indicated that it is willing to throw in with the ruling coalition on a case-by-case basis. [redacted]

### Record to Date Encouraging

Perez Balladares moved quickly to put his stamp on the new Assembly, which opened its first session on 1 September. The legislature confirmed the President's Cabinet and sub-Cabinet selections during the first two weeks of the opening session. The ruling party also tabled constitutional amendments carried over from the prior administration that Perez Balladares and Assembly president Herrera had promised to make the legislature's first order of business. The Assembly voted in October to ratify an amendment banning a standing army. Then in November [redacted] the ruling party, recognizing the need to send a positive signal to the United States and other international users of the Canal, orchestrated the passage of the Canal Treaty amendment. The bill was passed over the objections of prolabor factions, which opposed the amendment's prohibitions against strikes.<sup>1</sup> [redacted]

The PRD's nationalistic, anti-US left wing has chafed under Perez Balladares's centrist policies, but so far the President and PRD legislative leaders have managed to keep it in check.

- [redacted]
- [redacted] the left remains upset over receiving few patronage positions in the administration. [redacted]

Nonetheless, Perez Balladares and Assembly president Herrera have worked hand-in-hand to maintain party unity on key votes. The demilitarization amendment passed as a result of a compromise with PRD leftists, allowing for the creation of a temporary special force in the event of external aggression. Only three PRD hardliners, including party president Gerardo Gonzalez, voted against the bill. Herrera and party stalwarts like Romulo Escobar Bethancourt have also managed to rein in the left on controversial decisions to provide safehaven for Cuban migrants and political asylum for Haiti's deposed Generals [redacted] in October, the President managed to strong-arm leftwing support for his

<sup>1</sup> The Assembly defeated a third amendment in October that would have permitted the creation of a special convention to reform the Constitution. According to the Embassy, the PRD led a coalition of legislators who opposed the measure principally because they feared the creation of a rival institution with authority to restructure the government would drain power and prestige from the Assembly. [redacted]

non-PRD candidate for Comptroller by threatening party dissidents with the loss of patronage [redacted]

Perez Balladares has also built public support for his legislative agenda by stressing action to alleviate poverty, unemployment, and crime--the top public concerns according to recent polls. In November, he announced a 12.6-percent increase in the budget to fund his social agenda. He has submitted a new organic law, scheduled for debate before the Assembly adjourns in December, that will reorganize the security services, in part to better equip them to deal with rising crime. [redacted]

### Looking Ahead

Over the next few months, debate over proposed economic reforms will test the ruling party's cohesiveness.

- PRD leftists generally oppose the reforms, while the party's probusiness moderates strongly support them.
- The prolabor faction of the PRD and several labor organizations plan to oppose reform of the labor code. [redacted] and several national unions have mounted demonstrations against the legislation.
- [redacted] Labor Minister Doens, a member of the far-left Tendencia faction of the PRD, may resign and run for party president, which would give him a stronger platform to oppose labor code reform.
- [redacted] the PRD left and public sector unions are objecting to the administration's proposed privatization of INTEL--the state-owned phone company. [redacted]

Despite such strains, chances are good that Perez Balladares can work out a compromise with the left and enact the economic reforms. [redacted] labor groups would like to see the debate over the labor code tied to a discussion of social development, and a representative of a major national union has stated that the union would sacrifice some job security for an increase in unemployment compensation and educational programs. The left may also be susceptible to arguments that these reforms are crucial to attracting the foreign investment and credits that the administration is relying on for job creation and funding social services. Moreover, Perez Balladares has already soft-pedaled privatization to protect jobs. The government, for example, will retain a 49-percent share of INTEL, and has pledged to continue government control over key utilities. [redacted]

Perez Balladares has significant clout he can bring to bear, if necessary, to maintain party discipline. He can threaten to cut the left out of the largess associated with privatization or to reduce party patronage, as he did in the vote on the Comptroller. He can also rely on key PRD leaders--in particular Herrera, who can still use her stature with leftist cronies despite accusations of having sold out to PRD moderates--to demand loyalty on economic reforms. In addition, the President could threaten to cast obstructionist hardliners out of the party. [redacted]

[redacted] the President has already asked Minister of the Presidency Arango to form a new party that Perez Balladares could use as a political base if he decides to abandon the left. [redacted]

Even if some PRD leftists refuse to come around, the President may be able to garner enough support from the opposition to move key bills through the legislature. PRD moderates and centrist legislators from the opposition--who are well represented in the Cabinet--already worked together to pass the Canal Treaty amendment over the objections of the left and labor organizations. More disposed than PRD hardliners to free market economic policies to begin with, opposition parties nonetheless are likely to seek to exploit the rift in the ruling party by demanding greater participation in the government in exchange for their votes on reform measures. [redacted]

#### What if the Legislative Process Fails?

There is an outside chance that a combination of an obstructionist left and an uncooperative opposition would force Perez Balladares to abandon the legislature and rule by decree. Although a step back in terms of Panama's democratic reforms, Perez Balladares could still accomplish much of his probusiness agenda through Presidential fiat and remain within the bounds of the country's Constitution. The 1983 Constitution gives the President broad powers in his relations with the Legislative Assembly.

- He can issue executive decrees during Assembly recesses, which have the force of law until they undergo legislative review.
- He has the authority to declare a state of emergency in case of war or internal disturbance, suspend constitutional guarantees, and dissolve the legislature.

Perez Balladares has already used his executive powers to satisfy US calls for progress on money laundering. He issued a decree in October modifying Panama's incorporation laws when probusiness legislators said they would oppose the legislation [redacted]

## Implications for the United States

If, as appears likely, the PRD-led Assembly passes much of the President's ambitious agenda during its first year, Perez Balladares is likely to continue to work through the legislature, thereby strengthening Panama's democratic process. Moreover, a successful track record will consolidate the President's mandate and help him to overcome any residual public wariness about the ruling party's authoritarian tendencies in the past. [REDACTED]

While Panama's democratic consolidation is likely to be furthered by Perez Balladares's success in the legislature, bilateral relations will still have their ups and downs. Over the short term, Washington can expect the President to toughen his rhetoric toward the United States during acrimonious floor debates on economic reforms. Cabinet ministers have already been hauled before the Assembly to face opposition criticism of the administration's pro-US gestures on Cuban migrants and Haitian military. Perez Balladares almost certainly will try to reduce his vulnerability to charges he is catering to US interests and mollify the anti-US left by showing public signs of independence--as he did on the United Nations General Assembly vote on the embargo of Cuba.

- Foreign Minister Lewis told US officials that the President's recent decision not to extend the Cuban migrant camps beyond the original March deadline was an effort to strengthen his hand with the left during debates in the next legislative session over economic reforms [REDACTED]

To compensate, however, Perez Balladares most likely will seek to reassure US officials of his continued cooperation on issues that are less controversial domestically--such as counternarcotics and Canal Treaty implementation.

- Antidrug measures, particularly on money laundering, will benefit from the President's ability to set the legislative agenda, although he will remain wary of demanding too much of the banking sector--a key political constituency.
- The ad hoc political alliance Perez Balladares forged in passing the Canal Treaty amendment bodes well for the passage of legislation related to the orderly transfer and economic development of US-held properties reverting to Panamanian control. [REDACTED]

In return, Perez Balladares probably will seek special trade concessions from the United States--an administration priority. Panama will seek exemptions to

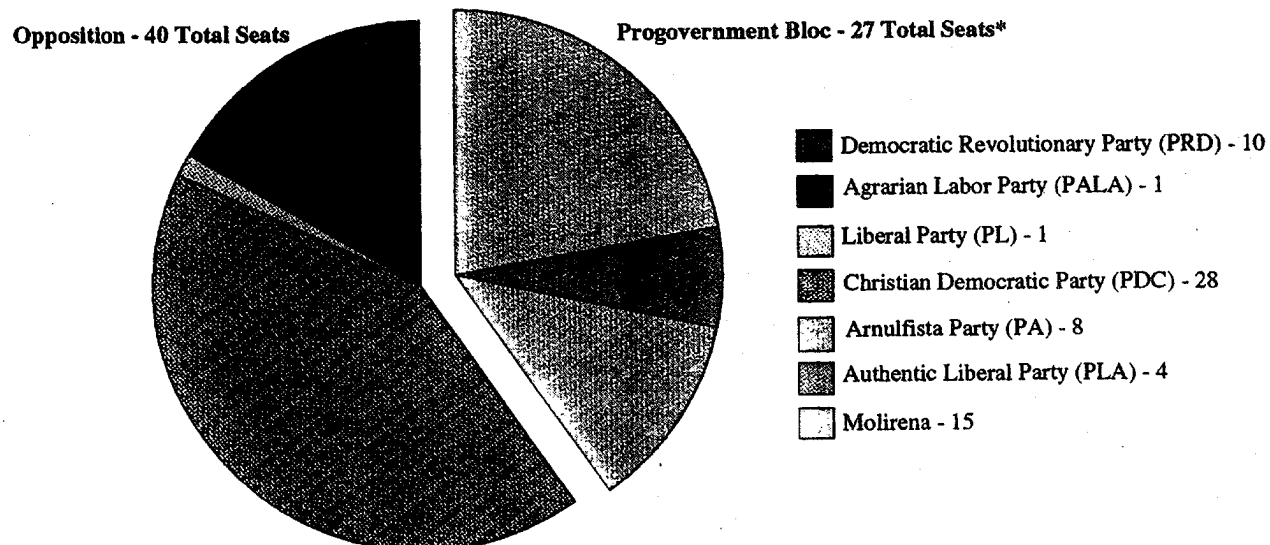
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tariff reductions for the agricultural sector and US support for the Intellectual Property Rights bill that Panama is adjusting to try to meet requirements for accession to GATT. Perez Balladares has also argued that Panama's acceptance of Cuban migrants should improve the country's chances for NAFTA accession.

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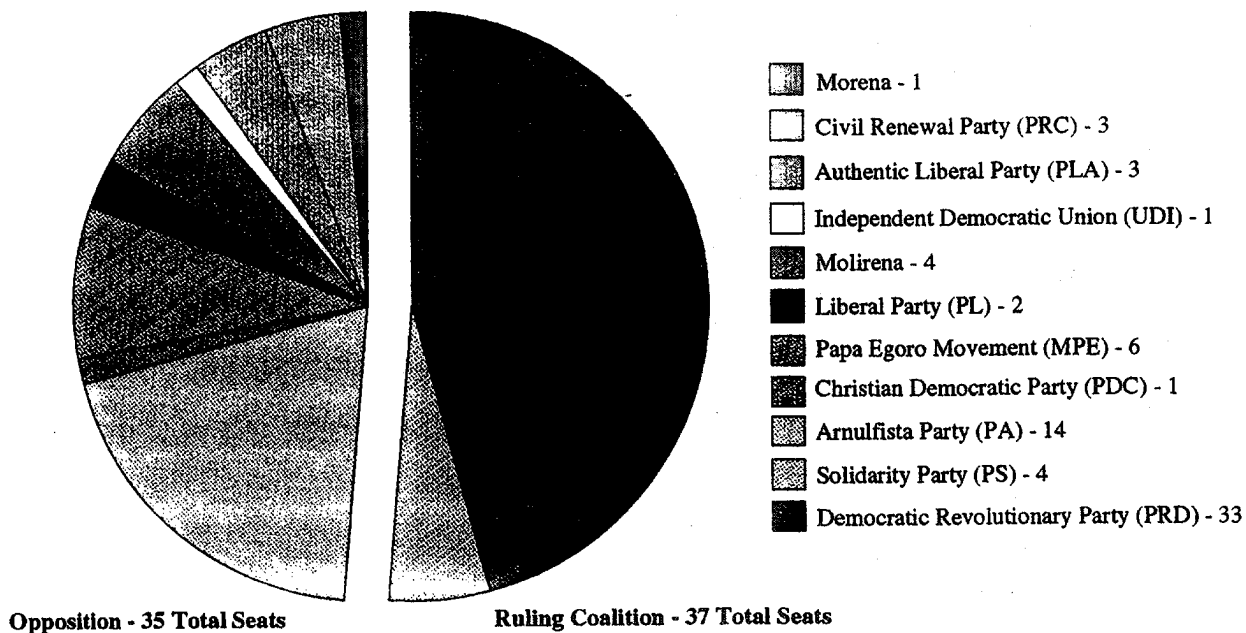
**Figure 1**  
**The Changing Face of Panama's Legislative Assembly**  
**Number of Seats per Party**

**Previous Assembly - January 1991-September 1994**



\* Following the breakup of the ruling coalition in 1992, mavericks from the progovernment parties aligned themselves with the PDC, bolstering the opposition block and further eroding the Endara Government's legislative influence.

**Current Assembly - Since September 1994\***



\* In 1994, the government added five additional seats to the Assembly.